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The following was received this afternoon,
April 9, 1973 from Exxon Corporation in
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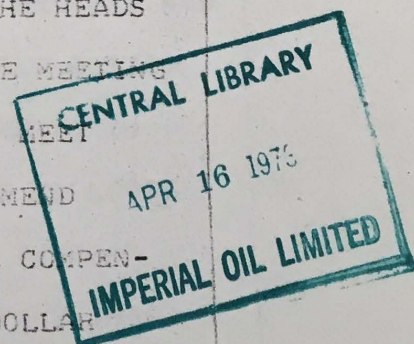
WE ARE FORWARDING FOR YOUR INFORMATION AND THE INTERNAL USE
OF AFFILIATE MANAGEMENT THE FOLLOWING BACKGROUND PAPER OF THE
PARITY QUESTION AND THE PROJECTED MEETING IN BEIRUT
APRIL 12, 1973
PARITY AGREEMENT

1. AN INDUSTRY PAPER INCORPORATING MUCH OF PARAGRAPH 2 BELOW
IS BEING PREPARED FOR USE AS BACKGROUND IN BRIEFING
CONSUMER GOVERNMENTS AND PRESS AND WE ARE HOPEFUL IT WILL
BE RELEASED MONDAY. MEANWHILE, THE FOLLOWING HAS BEEN
PREPARED FOR YOUR CONFIDENTIAL INFORMATION. PLEASE NOTE THAT
IT IS NOT ANTICIPATED THAT THE INFORMATION IN PARA 3 WILL
BE CLEARED FOR EXTERNAL USE.

2. AT ITS RECENT MEETING IN BEIRUT THE MINISTERIAL COMMITTEE
OF OPEC APPOINTED A NEGOTIATING TEAM COMPOSED OF THE HEADS
OF DELEGATION OF IRAQ, KUWAIT, AND LIBYA. AFTER THE MEETING
A COMMUNIQUE WAS ISSUED INDICATING THEIR INTENT TO MEET
WITH THE COMPANIES. " IN ORDER TO NEGOTIATE AND AMEND
THE GENEVA AGREEMENT WITH A VIEW TO OBTAINING FULL COMPEN-
SATION AS A RESULT OF THE DEVALUATION OF THE U.S. DOLLAR
AND TO AVOID ANY FUTURE LOOPHOLES". A LETTER TO THIS
EFFECT ADDRESSED TO THE COMPANIES WAS SUBSEQUENTLY RECEIVED,
WITH A REQUEST TO MEET IN BEIRUT ON APRIL 12TH.

THE COMPANIES REPLIED IN THE FOLLOWING TERMS :

- A) THAT 'AS THIS AGREEMENT WAS DESIGNED TO PROVIDE FOR
THE REVALUATION AS RECENTLY EXPERIENCED, WE WERE SUR-
PRISED TO LEARN THAT YOU WOULD PROPOSE A MODIFICATION'.
B) THAT 'ALTHOUGH WE SEE NO NEED TO CHANGE THE AGREEMENT,
WE WISH TO SEND REPRESENTATIVES TO VIENNA ON MARCH 30 TO



DETERMINE THE NATURE OF YOUR CONCERNS''.

B) THAT ''ALTHOUGH WE SEE NO NEED TO CHANGE THE AGREEMENT, WE WISH TO SEND REPRESENTATIVES TO VIENNA ON MARCH 30 TO DETERMINE THE NATURE OF YOUR CONCERNS ''

REPRESENTATIVES DULY VISITED THE OPEC SECRETARIAT OFFICES IN VIENNA, BUT WERE UNABLE TO OBTAIN ANY CLARIFICATION OF THE OPEC CONCERNS.

IN SPITE OF THIS, COMPANY REPRESENTATIVES WILL MEET WITH THE OPEC TEAM IN BEIRUT ON APRIL 12TH IN ORDER TO FIND OUT PRECISELY WHAT AMENDMENTS OPEC FEEL SHOULD BE MADE TO THE GENEVA AGREEMENT AND HAVE INFORMED OPEC ACCORDINGLY.

WHILE IT IS DIFFICULT AT THIS STAGE TO SEE ANY REASON FOR MODIFYING THE TERMS OF THE GENEVA AGREEMENT, NEVERTHELESS IT IS POSSIBLE THAT FURTHER DISCUSSIONS WITH OPEC WILL REVEAL ELEMENTS WORTHY OF RE-EXAMINATION.

AS FURTHER BACKGROUND :

THE GENEVA AGREEMENT, SIGNED IN JANUARY 1972, TOOK ITS PLACE IN THE SERIES OF AGREEMENTS NEGOTIATED BETWEEN OPEC MEMBERS AND OIL COMPANIES (STARTING IN LIBYA IN 1970) WHICH RAISED POSTED PRICES AND TAX RATES. TEHERAN AND THE RELATED AGREEMENTS IN 1971 ESTABLISHED CRUDE PRICES THROUGH 1975, AND WERE FOLLOWED BY THE 1972 PARTICIPATION AGREEMENTS. ALTHOUGH THE TEHERAN AGREEMENT INCLUDED A PRICE ESCALATION PROVISION TO TAKE INTO ACCOUNT WORLDWIDE INFLATION, IT WAS NOT DESIGNED TO COMPENSATE FOR LARGE CURRENCY FLUCTUATIONS. THE GENEVA AGREEMENT WAS NEGOTIATED TO DO SO.

3. THE INDUSTRY MOOD AT PRESENT (IS) THAT:

A) THE GENEVA AGREEMENT, SIGNED A LITTLE OVER A YEAR AGO CONTAINED NOT ONLY A QUITCLAIM AGAINST PAST CURRENCY CHANGES, BUT ALSO SPECIFICALLY CONSTITUTED A 'FAIR, APPROPRIATE AND FINAL SETTLEMENT OF ALL CLAIMS AND OBJECTIVES OF THE GULF STATES WITH REGARD TO CHANGE IN THE VALUE OF ANY CURRENCY''

DURING THE PERIOD THROUGH 31 DECEMBER 1975.

B) IN ADDITION THE GENEVA AGREEMENT FORMULA, UNDER WHICH A CHANGE IS BASED ON THE ARITHMETICAL AVERAGE OF A NUMBER OF CURRENCIES VERSUS THE DOLLAR, WAS ITSELF OPEC'S PREFERENCE AND THE RESULT OF PROLONGED NEGOTIATION, AND WAS A MUTUALLY AGREED FORMULA THAT TAKES INTO ACCOUNT THE EFFECT OF FLUCTUATIONS IN THE EXCHANGE RATES OF THE MAIN TRADING CURRENCIES OF OPEC MEMBERS.

C) IN OUR VIEW THE TERMS OF THE AGREEMENT HAVE OPERATED UNDER TODAY'S CIRCUMSTANCES SO AS TO PROVIDE A FAIR AND EQUITABLE TREATMENT TO THE PRODUCING COUNTRIES. IN THIS CONNECTION IT SHOULD BE POINTED OUT THAT IT WAS, AND STILL IS, POSSIBLE FOR THE VALUE OF THE DOLLAR TO INCREASE RATHER THAN DECREASE VERSUS THE OTHER MAJOR CURRENCIES. THE PROTECTIONS INCLUDED AT THE INSISTENCE OF OPEC WHICH WOULD HAVE PRESERVED THEIR POSITION IN THE EVENT OF AN INCREASE IN THE VALUE OF THE DOLLAR ARE NOW ACTING TO DELAY THE RESPONSE OF POSTED PRICES TO DOLLAR DEVALUATIONS.

D) WE ARE RECEPTIVE TO ARGUMENTS THAT THE TIME LAG FOR IMPLEMENTATION OF POSTING CHANGES BE REDUCED BY CHANGING THE REVIEW PERIOD FROM A QUARTERLY TO A MONTHLY BASIS. ALSO, IN VIEW OF THE FACT THAT THE PARITIES OF INTERNATIONAL CURRENCIES ARE FLOATING TO A GREATER DEGREE THAN HAD BEEN ANTICIPATED IT APPEARS REASONABLE TO REDUCE THE MAGNITUDE OF THE CHANGE IN THE AVERAGE OF THE PARITIES WHICH IS REQUIRED TO TRIGGER A CHANGE IN POSTINGS

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DONALD L. SNOOK